pensions & investments

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Vanguard, Batterymarch pool efforts

By Michael Clowes

VALLEY FORGE, PA.—The Vanguard Group has hired Batterymarch Financial Management of Boston to manage a new mutual fund, the Trustees Commingled Equity Fund, which is directed at pension funds, endowments and foundations.

According to John C. Bogle, president of Vanguard, the new fund will be actively managed, "not an index fund by any means."

The Vanguard move links two of the most innovative companies in the investment business and reinforces what some in the industry see as a move toward greater use of commingled funds.

Vanguard was the first mutual fund organization to offer an indexed mutual fund, which now has $75 million. Batterymarch was one of the first index fund managers, along with American National Bank, Chicago and Wells Fargo Bank, San Francisco. It has pioneered in the use of quantitative techniques in active management. It has been among the fastest growing investment firms in the industry, adding more than $1 billion in assets to date this year.

Batterymarch will be the third investment manager for the Vanguard mutual fund group. The others are Citibank, with a municipal bond fund, and Wellington Management.

Bogle

LeBaron

According to Mr. Bogle, the new fund fits in with what he sees as a trend toward commingling of pension assets.

He noted that Morgan Guaranty uses the commingled approach with even large pension clients.

According to Mr. Bogle, a preliminary prospectus has been issued for the new fund, which will have a minimum account size of $25,000, and it is expected to be in operation by year-end.

Vanguard approached Batterymarch earlier this year to see if there was any way for the two companies to assist one another, said James Riepe, executive vp at Vanguard.

"They responded with 'let's talk', and this is the result of the conversations."

Mr. Riepe said that Batterymarch's strength, the selection of undervalued securities using comprehensive computer modeling and disciplined portfolio construction, was different from the approach used by Wellington Management in managing the bulk of Vanguard's equity assets and the new fund would complement the other Vanguard funds.

The Vanguard Group has total assets of $2.5 billion, of which about $350 million is tax-exempt, and its 14 mutual funds cover the spectrum from municipal bond funds to aggressive growth equity funds and even an indexed equity fund.

Batterymarch has just over $3 billion in assets under management, more than 90% of which is tax-exempt assets. According to Dean LeBaron, president of Batterymarch, the new mutual fund will be managed "like our regular actively managed accounts—in a contrarian style, probing for cheap sectors of the market."

Mr. LeBaron said Batterymarch's typical account used between 50 and 100 stocks and was very undiversified compared with the market because the holdings were concentrated in a few sectors.

He said there were three reasons why Batterymarch agreed to manage a new mutual fund for the Vanguard Group.

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Cloud on Central State fund?

By Charles Epstein

CHICAGO—Thomas J. Duffey, a former management trustee who was forced to resign as a trustee by the Department of Labor apparently is the leading contender for the position of executive director of the Teamsters Central States Pension Fund, *Pensions & Investments* has learned.

The $2.3 billion fund found itself without a chief executive after John Dwyer, a St. Louis accountant resigned in early October (*P&I*, October 8).

Mr. Dwyer resigned from his $75,000 a year post after serving 17 months in the fund's top position.

The chief contender for the post is Mr. Duffey who has been seen at the fund offices recently familiarizing himself with the daily operation.

Thomas J. Duffey, who many fund observers believe has the best chance to become executive director, has a history with the fund dating back to June 15, 1962 when he was named a management trustee. The motion to name Mr. Duffey an employer trustee was made by Jimmy Hoffa, according to board of trustee meeting minutes. The motion was unanimously accepted.

Mr. Duffey is an attorney in Milwaukee and since 1957 has been counsel to the Wisconsin Motor Carriers Labor Advisory Council.

He is also a former member of the Wisconsin legislature (serving from 1955 to 1961) and a former Milwaukee County Board Supervisor (from 1960 to 1968).

He resigned in October 1976 as part of a "major reorganization" at the fund which reduced the number of trustees from 16 to 10, sources said.

This "reorganization" was done to allow the old guard trustees to leave without losing face, according to fund sources.

According to 5500 Reports, Mr. Duffey received $69,163 in fees in 1967; $49,364 in 1977; and $18,548 in 1978 while acting as a trustee.

Within the past few months, Mr. Duffey has been at the fund reportedly to advise officials about the union fund's continuing litigation with the M&R Investment Company.

But, Mr. Duffey has also been seen in board of trustee and administrative meetings sources told *P&I*.

The former trustee also is considered extremely knowledgeable about the real estate portfolio and has also developed the habit of taking extensive notes on presentations he has heard or been asked to give.

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In-state fund investments set in Kansas

By Maria Crawford Scott

TOPEKA—The $750 million Kansas Public Employes Retirement System (KPERS), has placed $42 million in federally insured certificates of deposit with Kansas banks and savings and loans. The fund will offer another $50 million on December 10.

The offerings are part of the Kansas Liquidity Fund, set up by the board of trustees in August to provide capital for Kansas institutions. The board earmarked $100 million for the fund. It is part of a continuing policy by the KPERS to favor instate investments, provided no financial sacrifices are made.

The first offering of $50 million was in late October with 117 banks and 14 savings and loans subscribing to $42 million.

KPERS made the initial offering available in $100,000 lots for six months maturity at an interest rate of 13.61%. The board sets interest rates based on the 90-day certificate of deposit rate published by the Federal Reserve Bank in St. Louis.

The offerings are made available to all Kansas banks and savings and loans insured under the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC). In addition, the board attempts to spread the money around and give as many institutions as possible the opportunity to participate by limiting holdings.

The money allocated to the Liquidity Fund normally would be invested in other short-term investments, such as treasury bills, according to John Corkhill, executive secretary.

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Inside

Daylight breaks for equities in Florida?

4 The investment management of $3 billion in Florida public employe retirement assets has had some sunshine cast upon it, and now that the governor's office has seen the light, equity managers could begin flocking to Tallahassee. Only about 5% of the assets are now invested in stocks, but that could change after a review of the asset mix question.

Common ground in uncommon towns

16 The seven most consistent equity managers in the latest *Pensions & Investments'* Performance Evaluation Report (November 19) are located in the most uncommon of places—Cleveland, Denver, Des Moines, Everett, Fort Worth, New York and Toronto. What, wondered editor Mike Clowes, might they all have in common? Well he asked, and it seems they all still have a healthy regard for Graham and Dodd.

NPT: Tieing is the only thing

27 "A recent study by Nibbets & Sinkfield covering 50 years of college football," begins Philip Goldberg, a contributor to the Features section, "shows clearly that losing teams scored fewer points than winning teams." An unlikely beginning for a piece on Modern Portfolio Theory, you say? Maybe you'll get the drift if we ask you to imagine Vince Lombardi saying, "Tieing isn't everything; it's the only thing."

Reducing economics to 500 words

29 Even the most complex problems in the world can occasionally be reduced to something we all understand. Which is one way of describing how a colleague of ours and an associate have reduced the confusing complexities of the U.S. economy to about 500 words. Their econometric model works precisely like that porcelain thing that sits in the smallest room in the house.

What happened to Brinson?—page 31

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Wall Street mergers don't concern pension executives

By Michael Clowes

NEW YORK—Pension fund executives and their money managers apparently are not very concerned about the plethora of mergers that have hit Wall Street brokerage houses.

In fact, a majority of those surveyed believe the mergers have had no effect on market liquidity, according to a *Pensions & Investments* survey.

The most recent survey of members of the *P&I* Editorial Advisory Panel asked the following questions about the merger question:

- What were the most important trends or developments affecting Wall Street in the past decade?
- How concerned were panel members about Wall Street mergers?
- What were the likely effects of the mergers on liquidity, research and regional brokerage firms?

Only 19.6% of the panel members said they were "very concerned" about the mergers occurring on Wall Street, with slightly more money managers (22.8%) than pension sponsors (16.1%) responding this way.

However, 48.4% of the respondents expressed mild concern about the merger trend, with an equal percentage of sponsors and managers feeling this way.

But 31.8% of the respondents said they were not at all concerned about the trend, with 35.5% of the sponsors and 28.6% of the managers taking this stance.

One third of the respondents expressed the belief that the merger trend was accelerating, but 43.9% felt it was stable and 22.7% said they believed it had peaked and was now declining.

Pension sponsors were slightly more optimistic that the trend was declining than were the fund managers.

The respondents were equally divided on whether the mergers would continue until only about a dozen large firms were left on the Street.

The 50% of respondents who felt this was likely believed it would occur between 1985 and 1990, with only one estimate as far out as the year 2000.

A majority of the respondents, 57.5%, said they believed the mergers that had so far occurred had not reduced common stock liquidity on the street, while 63.6% said they believed the mergers had not affected bond liquidity.

However, here money managers had a different view from the sponsors. Some 51.5% of the managers said common stock liquidity had indeed been affected, compared with only 32.3% of the fund sponsors.

And 48.5% of the managers said bond liquidity had been affected, while only 32.3% of the sponsors thought it had.

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How concerned are you about Wall Street mergers?

	%
Very concerned	19.6
Mildly concerned	48.4
Not concerned	31.8

Is the merger trend stable, declining or increasing?

	%
Stable	43.9
Declining	22.7
Accelerating	33.3

Do you agree with preditions that Wall Street will eventually be left with only about a dozen large brokerage houses?

	%
Agree	50.0
Disagree	50.0

Has the merger trend affected stock liquidity?

	%
Yes	42.4
No	57.5

Has it affected bond liquidity?

	%
Yes	40.9
No	59.1

Has it affected the quality of research?

	%
Yes	39.3
No	63.7

What impact will the mergers have on fees?

	%
Ultimately increase them	43.9
Ultimately decrease them	9.1
No effect	12.1
Stabilize near current levels	27.3

P&I panel survey . . .

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Sponsors and managers were in close agreement on whether or not the mergers had affected the quality of research, with 63.6% saying it had not.

Among those who felt research had been affected by the merger, 60% said research was now worse than before, while the remainder felt it was better.

The sponsors and managers were in agreement also on what effect the mergers would have on brokerage commissions, with 44% expecting commissions to rise in the future.

However, 39.4% expected commissions to stabilize about where they now are. Only 9.7% expected commissions to decline further.

The sponsors and managers were also in general agreement on the likely impact of the Wall Street merger trend on regional brokerage houses.

Some 42.4% felt that the Wall Street mergers would make it more difficult for the regional brokerage houses to survive because the Wall Street survivors would be bigger and stronger.

However, 21.2% said they thought the contraction on Wall Street would provide the regional brokerage houses with opportunities to find safe niches.

Those respondents suggested that strong regional firms which could take advantage of such niches would thrive.

The sponsors and managers differed on whether New York Stock Exchange Rule 390 requiring trades to be taken to the floor before execution should be abolished.

A majority of the sponsors, 54.8%, said the rule should be abolished, generally feeling it was an anachronism and an impediment to a free market.

But only 40% of the managers said it should be abolished while 43% said it should not, and 17% were undecided or gave no answer.

Most of the respondents felt the introduction of negotiated rates was the most important development affecting Wall Street in the past 10 years, but a few named others.

Some declared that institutionalization of the markets was the most important development, while others named the withdrawal of the individual investor from the markets, and others cited the declining liquidity and capital commitment of Wall Street firms.

Two managers specified the general trend of pension funds towards conservatism, that is, away from common stocks, as the most important development.

The causes of the mergers were generally defined as the lack of profitability, brought on by the negotiated rates and the fact that there were too many brokerage concerns on the Street before rates were freed.

One consultant defined the problem as: "(lack of) profitability, the need for capital, and the lack of management ability."

Another said the contraction now was the result of "over expansion in the Sixties, the lack of value added, free pricing and inflation."

Another said part of the pressure for mergers came from the excessive compensation paid to some brokers, and the growing sophistication of the clients.

Many respondents cited poor management and poor cost control together with overcapacity and inefficiency in the industry as combining with negotiated commissions to produce the mergers within the industry.

When asked what might be done to reverse the merger trend, a few respondents suggested that a move back to fixed commissions might help, but most indicated no support for that idea.

Indeed, many of those who answered the question asked another question: "Why halt it?" This reflected the very slight concern expressed about the merger trend.

As noted above, a majority of pension sponsors were in favor of abolishing NYSE Rule 390, while those among the managers who had an opinion were almost equally divided pro and con.

Many of the sponsors felt that Rule 390 was "antiquated," as one put it, and believed that Rule 390 restricted a truly free market.

The same result could be achieved more simply, efficiently and cheaply by putting all trades into the NYSE computer data bank, said one sponsor.

But others were not sure that there would not be negatives to the abolition of the Rule.

"Abolition (of Rule 390) would hasten the concentration of trading in major network firms and help to dismantle a workable institution," said one sponsor.

Abolition would destroy the New York Stock Exchange, said another sponsor, who said the rule should not be abolished until a national market was in existence.

Another suggested that abolition of Rule 390 would adversely affect the lightly traded stocks.

One said that taking all trades to the floor made them public, which deterred corruption.

Many supporting the concept of abolishing Rule 390 made their support conditional on a national market system.

The *P&I* Editorial Advisory Panel, from which the foregoing is extracted is comprised of more than 200 executives, divided about equally between pension fund executives (the buy side) and their managers who sell investment products and services.

In total, the panel represents a pool of investment capital that exceeds $75 billion in assets. ■

Drug Fair . . .

Continued from page 2

The court allowed the plaintiffs to continue allegations of violations of the 1934 act and ERISA's exclusive purpose rule for not adequately disclosing investment policy.

The court said it would only consider improprieties occurring after Jan. 1, 1975, and that "it certainly appears to have been no great secret that the plan held Drug Fair stock."

Walter Freedman, an attorney for the defendants, said he thinks the decision could be used in the Marriott and other cases.

When asked what he thought the decision says to a fiduciary of a profit-sharing plan, he said it means it's all right to own company stock as long as the investments are made prudently; even if the stock goes down.

Plaintiff attorneys in the Marriott case, however, argued that this decision should not have much bearing in their case. Michael Gordon said it was his opinion that the complaint in the Drug Fair suit "was not well pleaded."

He said, for example, the securities law allegations were not as specific as they should have been.

Moreover, he said the Marriott complaint does not deal with the diversification question, but rather that it was imprudent to buy Marriott stock and in violation of the company's own internal guidelines.

Eugene Mittelman, another attorney in the suit, said the two cases are "absolute opposites," because there was judged to be full disclosure in the Drug Fair case, including statements of profits and losses. ■